

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 6179-01  
Bill No.: HB 1997  
Subject: Workers Compensation; Insurance - General  
Type: Original  
Date: March 20, 2014

---

Bill Summary: This proposal would modify provisions related to workers' compensation premium rates.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
General Revenue	(Unknown)	(Unknown)	(Unknown)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(Unknown)</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 11 pages.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
Road	(Unknown)	(Unknown)	(Unknown)
Second Injury	(Unknown)	(Unknown)	(Unknown)
Workers' Compensation Administration	(More than \$94,609)	(More than (\$100,743)	(More than \$101,768)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>(More than \$94,609)</b>	<b>(More than (\$100,743)</b>	<b>(More than \$101,768)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
Workers' Compensation Administration	2 FTE	2 FTE	2 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>2 FTE</b>	<b>2 FTE</b>	<b>2 FTE</b>

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Local Government</b>	<b>(Unknown)</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

### **FISCAL ANALYSIS**

#### **ASSUMPTION**

Officials from the **Department of Labor and Industrial Relations (DOLIR)** assume the effect on the premium base used to calculate the Workers' Compensation Administrative Fund tax and Second Injury Fund surcharge is unknown.

ASSUMPTION (continued)

Section 287.957, RSMo. - Workers' Compensation Insurance Experience Modification Factor:

DOLIR officials assume, due to the number of cases which could be affected by this bill and the complexity of annual fluctuations in the experience modification factor, two additional full-time employees would be required; an Insurance Financial Analyst I and an Auditor I to enable the Division's Self-Insurance Unit to monitor, investigate, and enforce compliance with statutory reporting requirements for injuries and medical costs by self-insured employers and group-trusts. DOLIR officials stated the annual salary of an Insurance Financial Analyst I is \$35,844 and the annual salary of an Auditor I is \$40,764.

Section 287.975, RSMo. - Contractors' Premium Adjustment Program:

DOLIR officials stated the Contractors Credit Premium Adjustment Program (CCPAP) currently mandates the use of the 3rd quarter payroll for calculating the credit, although new contractors are required to use the 1st quarter of the policy period. DOLIR officials assume the proposal would allow the contractor to choose which quarter's payroll information is submitted for the premium credit calculation. DOLIR officials also assume the contractor would most likely choose to report the quarter with the highest payroll, which would give him a higher premium credit. However, the increase in the premium credit would be limited to the amount the contractor's payroll in the selected reporting quarter exceeded payroll for the third quarter. For example, if the contractor's 3rd quarter payroll was \$800,000 and the 2nd quarter was \$1,000,000 the amount of the premium credit would only be affected by the \$200,000 difference.

DOLIR officials also assume the proposal would likely increase the overall premium credit and therefore result in a reduction in the overall workers' compensation premium base. Therefore, this change would likely reduce the Administrative Tax and Second Injury Fund Surcharge but the amount of the reduction cannot be determined at this time.

DOLIR officials also anticipated an unknown long range impact.

**Oversight** will include unknown revenue reductions for the Workers' Compensation Fund and the Second Injury Fund in this fiscal note.

ASSUMPTION (continued)

DOLIR officials assume additional computer programming would be needed to capture and consolidate compliance data for this legislation. The Division of Workers' Compensation's 2015 budget request includes a new decision item for a computer system modernization project. DOLIR officials assume the capabilities of the new system would meet the requirements of this legislation. However, if the new decision item is not approved, DOLIR officials assume this proposal could result in substantial costs that are unknown at this time.

**Oversight** assumes if the new computer system is not funded, OA-ITSD (DOLIR) would add the required functions to the existing DOLIR system. Oversight also assumes OA - ITSD (DOLIR) is provided with core funding to handle a certain amount of activity each year. Finally, Oversight assumes OA - ITSD (DOLIR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA - ITSD (DOLIR) could request funding through the appropriation process.

The DOLIR response included two additional employees and related benefits, equipment, and expense. Total employee - related cost was \$116,866 for FY 2015, \$125,688 for FY 2016, and \$127,081 for FY 2017.

**Oversight** assumes the DOLIR estimate of expense and equipment cost for the new FTE could be overstated. If DOLIR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment could be reduced by roughly \$6,000 per new employee.

**Oversight** has, for fiscal note purposes only, changed the starting salary for the additional employees to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOLIR estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

In response to similar provisions in HCS for HB 430 LR 0916-02 (2013) officials from the **Office of Administration, Division of General Services (DGS)** assumed the proposal would prohibit an adjustment to the experience rating modification of an employer's workers' compensation program if medical cost does not exceed 20% of the split point of primary and excess losses.

ASSUMPTION (continued)

DGS officials assumed the change from a fixed dollar amount of \$1,000 would allow the rating agency to increase the split point (currently at \$5,000) between claims considered primary losses and claims factored as excess losses. That change would magnify the positive effect of fewer losses for those entities that have a favorable experience modification factor below 1.00 and would further penalize those entities that have an experience modification factor above 1.00.

DGS officials stated the experience factor is used to determine the amount the state pays for worker's compensation administrative taxes and Second Injury Fund assessments. The changes in this proposal could increase the worker's compensation taxes and Second Injury Fund assessments paid by the state, since the state currently has an experience modification factor slightly above 1.00.

DGS officials also assumed the state would continue to have a slightly higher than average experience rating modification factor and therefore would pay slightly higher workers' compensation administrative taxes and Second Injury Fund assessments under this legislation.

**Oversight** assumes the state would have unknown net additional cost as a result of these provisions; and also assumes local governments would have similar unknown costs. For fiscal note purposes, Oversight will indicate unknown additional costs for the General Revenue Fund, for Road Funds, and for local governments for the expected additional administrative taxes and Second Injury Fund assessments.

Officials from the **Department of Insurance, Financial Institutions, and Professional Registration, Linn State Technical College, Missouri State University, Missouri Western State University, the University of Central Missouri, the University of Missouri, St. Louis County, the City of Kansas City, the Board of Police Commissioners of Kansas City, Missouri, and the St. Louis County Directors of Elections** assume this proposal would have no fiscal impact on their organizations.

ASSUMPTION (continued)

Officials from the following counties: Andrew, Audrain, Barry, Bates, Boone, Buchanan, Callaway, Camden, Cape Girardeau, Carroll, Cass, Clay, Cole, Cooper, DeKalb, Franklin, Greene, Holt, Jackson, Jefferson, Johnson, Knox, Laclede, Lawrence, Lincoln, Marion, Miller, Moniteau, Monroe, Montgomery, New Madrid, Nodaway, Ozark, Perry, Pettis, Phelps, Platte, Pulaski, Scott, St. Charles, St. Francois, Taney, Warren, Wayne and Worth did not respond to our request for information.

Officials from the following cities: Ashland, Belton, Bernie, Bonne Terre, Boonville, California, Cape Girardeau, Clayton, Columbia, Dardenne Prairie, Excelsior Springs, Florissant, Frontenac, Fulton, Gladstone, Grandview, Harrisonville, Independence, Jefferson City, Joplin, Kearney, Knob Noster, Ladue, Lake Ozark, Lebanon, Lee Summit, Liberty, Louisiana, Maryland Heights, Maryville, Mexico, Monett, Neosho, O'Fallon, Pacific, Peculiar, Popular Bluff, Raytown, Republic, Richmond, Rolla, Sedalia, Springfield, St. Charles, St. Joseph, St. Louis, St. Robert, Sugar Creek, Sullivan, Warrensburg, Warrenton, Webb City, Weldon Spring and West Plains did not respond to our request for information.

Officials from the following school districts: Blue Springs, Branson, Charleston R-I, Cole R-I, Columbia, Fair Grove, Francis Howell, Fulton, Harrison R-IX, Independence, Jefferson City, Johnson County R-7, Kansas City, Kirksville, Kirbyville R-V, Lee's Summit, Malden R-I, Malta Bend, Mexico, Monroe City R-I, Nixa, Parkway, Pattonville, Raymore-Peculiar R-III, Raytown, Riverview Gardens, Sedalia, Sikeston, Silex, Special School District of St. Louis County, Spickard, St Joseph, St Louis, St. Charles, Sullivan, Warren County R-III, and Waynesville did not respond to our request for information.

Officials from the following colleges: Crowder, East Central Community College, Harris-Stowe, Jefferson College, Kansas City Metro Community College, Lincoln University, Moberly Area Community College, Missouri Southern State University, Northwest Missouri State University, Southeast Missouri State University, State Fair Community College, St. Charles Community College, St. Louis Community College, Three Rivers Community College, and Truman State University did not respond to our request for information.

FISCAL IMPACT - State Government

FY 2015  
(10 Mo.)

FY 2016

FY 2017

**GENERAL REVENUE FUND**

Cost - OA  
Workers' compensation program  
assessments  
Section 287.957

(Unknown)

Unknown)

(Unknown)

**ESTIMATED NET EFFECT ON  
GENERAL REVENUE FUND**

**(Unknown)**

**Unknown)**

**(Unknown)**

**ROAD FUND**

Cost - OA  
Workers' compensation program  
assessments  
Section 287.957

(Unknown)

Unknown)

(Unknown)

**ESTIMATED NET EFFECT ON  
ROAD FUND**

**(Unknown)**

**Unknown)**

**(Unknown)**

FISCAL IMPACT - State Government  
 (Continued)

FY 2015  
 (10 Mo.)

FY 2016

FY 2017

**WORKERS' COMPENSATION  
 ADMINISTRATION FUND**

Cost - DOLIR

Experience rating changes

Section 287.957 and 287.975

Salaries	(\$54,390)	(\$65,921)	(\$66,580)
Benefits	(\$27,742)	(\$33,623)	(\$33,959)
Equipment and expense	<u>(\$12,477)</u>	<u>(\$1,199)</u>	<u>(\$1,229)</u>
Total	(\$94,609)	(\$100,743)	(\$101,768)

FTE change - DOLIR

2 FTE

2 FTE

2 FTE

Revenue reduction - DOLIR

Experience rating procedure changes

Section 287.957 and 287.975

(Unknown)

(Unknown)

(Unknown)

**ESTIMATED NET EFFECT ON  
 WORKERS' COMPENSATION  
 ADMINISTRATION FUND**

**(More than  
\$94,609)**

**(More than  
\$100,743)**

**(More than  
\$101,768)**

Estimated Net FTE effect on Workers'  
 Compensation Administration Fund

2 FTE

2 FTE

2 FTE

**SECOND INJURY FUND**

Revenue reduction - DOLIR

Experience rating procedure changes

Section 287.957 and 287.975

(Unknown)

(Unknown)

(Unknown)

**ESTIMATED NET EFFECT ON  
 SECOND INJURY FUND**

**(Unknown)**

**(Unknown)**

**(Unknown)**

<u>FISCAL IMPACT - Local Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
<b>LOCAL GOVERNMENTS</b>			
<u>Cost</u> - Local governments			
Workers' compensation program			
assessments			
Section 287.957	<u>(Unknown)</u>	<u>Unknown</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS</b>	<u><b>(Unknown)</b></u>	<u><b>(Unknown)</b></u>	<u><b>(Unknown)</b></u>

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses which are subject to workers' compensation insurance requirements.

FISCAL DESCRIPTION

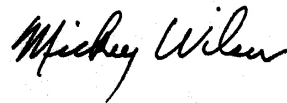
This proposal would prohibit an adjustment to the experience rating modification of an employer's workers' compensation insurance if medical cost does not exceed 20% of the split point of primary and excess losses.

This proposal would also allow, for purposes of calculating the premium credit under the Missouri contracting classification premium adjustment program, an employer to submit to the advisory organization the required payroll record information for the first, second, third, or fourth calendar quarter of the year prior to the workers' compensation policy beginning or renewal date, provided the employer clearly indicates for which quarter the payroll information is being submitted.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Insurance, Financial Institutions, and Professional Registration  
Department of Labor and Industrial Relations  
Linn State Technical College  
Missouri State University  
Missouri Western State University  
University of Central Missouri  
University of Missouri  
St. Louis County  
City of Kansas City  
Board of Police Commissioners of Kansas City, Missouri  
St. Louis County Directors of Elections



Mickey Wilson, CPA  
Director  
March 20, 2014

Ross Strobe  
Assistant Director  
March 20, 2014